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Message Text

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PAGE 01 NEW DE 07275 170831Z

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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---------- 046019
R 170728Z MAY 76
FM AMEMBASSY NEW DELHI
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PASS TREASURY AND COMMERCE

E.O. 11652: N/A
TAGS: EFIN, IN
SUBJECT: FINANCE MINISTER ANNOUNCES TAX REVISIONS

REF: NEW DELHI A-89

SUMMARY. FINANCE MINISTER SUBRAMANIAM, SPEAKING ON THE FINANCE BILL IN PARLIAMENT ON MAY 12, ANNOUNCED ADDITIONEXCISE TAX AND IMPORT DUTY REDUCTIONS, WHICH MODIFIED HIS ORIGINAL IFY 1976-77 BUDGET PROPOSALS. IN ADDITION, THE FINANCE MINISTER ANNOUNCED

THAT LUMP SUM PAYMENTS OF ROYALTIES FOR SERVICES PROVIDED OUTSIDE OF INDIA UNDER AGREEMENTS APPROVED BY THE GOI PRIOR TO APRIL 1, 1976 WILL CONTINUE TO BE EXEMPT FROM INCOME TAX. HE ALSO STATED THAT HE INTENDED TO RESTRICT THE SCOPE OF THE RELEVANT PROVISIONS OF THE INDIAN TAX LAWS SO THAT INTEREST PAYABLE TO FINANCIAL INSTITUTIONS BY NON-RESIDENTS ON LOANS WILL BE TAXABLE ONLY IN CASES WHERE THE PROCEEDS OF THE LOAN ARE USED DIRECTLY FOR BUSINESS IN INDIA. THESE TAX CHANGES WATER DOWN THE ONEROUS
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PAGE 02 NEW DE 07275 170831Z

BUDGET PROPOSALS THAT WERE VIEWED WITH CONCERN BY FOREIGN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

COMPANIES. END SUMMARY.

1. MAJOR EXCISE TAX AND IMPORT DUTY CONCESSIONS NOW OFFERED INCLUDE:

- NO EXCISE TAX ON RUBBER TIRES, TUBES, AND DRY BATTERIES SUPPLIED AS ORIGINAL EQUIPMENT FOR THE MANUFACTURE OF AGRICULTURAL TRACTORS;
- ROOF TILES EXEMPTED FROM THE GENERAL ONE PERCENT EXCISE TAX;
- STARCH USED IN THE MANUFACTURE OF GLUCOSE AND DEXTROSE EXEMPTED FROM EXCISE TAX. THE LIST OF ESSENTIAL LIFE-SAVING DRUGS ALREADY EXEMPT FROM EXCISE TAX IS TO BE EXPANDED;
- EXCISE TAX ON FINE AND SUPERFIVE CLOTH MANUFACTURED ON POWERLOOMS OR HANDLOOMS IS REDUCED TO ENCOURAGE GREATER PRODUCTION;
- EXCISE TAX ON CERTAIN VARIETIES OF CREAMLAID OR CREAMWOVEN PAPER REDUCED FROM 25 TO 15 PERCENT;
- IMPORT DUTY ON COPPER REDUCED FROM 60 PERCENT TO THE PRE-BUDGET RATE OF 45 PERCENT AD VALOREM;
- IMPORT DUTY ON COLD ROLLED STEEL USED IN THE MANUFACTURE OF TRANSFORMERS NOT AVAILABLE DOMESTICALLY IS REDUCED FROM 75 PERCENT TO 40 PERCENT AD VALOREM.

2. AS AN INCENTIVE TO PROMOTE FAMILY PLANNING PROGRAMS, THE FINANCE MINISTER OFFERED DIRECT TAX CONCESSION IN THE FORM OF A 100 PERCENT DEDUCATION IN TAXABLE INCOME OF DONATIONS FOR FAMILY PLANNING PURPOSES.

3. REFERRING TO THE PROPOSED CHANGES IN THE TAXATION OF FOREIGN CO-MPANY INCOME, THE FINANCE MINISTER EXPLAINED THAT THE DECISION TO MODIFY THE ORIGINAL PROVISION OF THE FINANCE BILL WAS MADE SO THAT FOREIGN SUPPLIERS OF TECHNOLOGY AND INDUSTRIAL PROPERTY ZERD NOT ADVERSELY AFFECTED. FOREIGN SUPPLIERSNOF TECHNICAL KNOW-HOW, WHO HAD ENTERED INTO AGREEMENTS OR HAD FINALIZED PROPOSALS PRIOR TO APRIL 1, 1976, WHICH HAD THE APPROVAL OF THE GOI, FOR THE RECEIPT OF LUMP SUM ROYALTIES FOR TECHNICAL SERVICES PROVIDED OUTSIDE INDIA, WOULD CONTINUE TO BE EXEMPT FROM PAYING INDIAN INCOME TAX ON THESE ROYALTY PAYMENTS. IN CASES OF FOREIGN COMPANIES WHOSE TECHNICAL KNOW-HOW AGREEMENTS ARE APPROVED BY THE GOI AFTER MARCH 31, 1976, THE EXEMPTION WITH RESPECT TO LUMP SUM ROYALTY PAYMENTS WILL APPLY ONLY IF THEY UNCLASSIFIED

SO OPTION. FOREIGN COMPANIES THAT DO NOT EXERCISE THIS OPTION WILL BE SUBJECT TO THE NEW TAXATION PROVISIONS ON ROYALTIES AS STIPULATED IN THE FINANCE BILL. SUCH COMPANIES SHALL BE LIABLE TO TAX AT THE RATE OF 20 PERCENT ON THE REMAINING AMOUNT WITHOUT THE BENEFIT OF THE 20 PERCENTMAXIMUM DEDUCTION ALLOWABLE FOR EXPENSES. NET INCOME FROM ROYALTY PAYMENTS FOR SERVICES PROVIDED IN INDIA WILL CONTINUE TO BE CHARGED TAX ATMHE EXISTING RATE OF 52.5 PERCENT.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

4. THE ORIGINAL FINANCE BILL PROPOSAL SOUGHT TO PROVIDE THAT ANY INCOME BY THE WAY OF INTEREST PAYABLE TO A FINANCIAL IN-STITUTION BY A NON-RESIDENT SHALL BE DEEMED TO ACCRUE OR ARISE IN INDIA. THE FINANCE MINISTER INDICATED THAT THIS PROPOSAL, IN RETROSPECT, APPEARED TO BE HRSH AND WOULD HAVE AN ADVERSE EFFECT ON INVESTMENTS IN INDIA. ACCORDINGLY, HE PROPOSED TO RESTRICT THE SCOPE OF THE RELEVANT PROVISION SO THAT INTEREST PAYABLE TO A FINANCIAL INSTITUTION BY A NON-RESIDENT WILL BE

CHARGEABLE TO INDIAN INCOME TAX ONLY WHERE SUCH INTEREST IS PAID ON BORROWING FOR THE DIRECT PURPOSE OF BUSINESS CARRIED ON IN INDIA.

5. THE FINANCE MINISTER SAID THAT THE INDIRECT TAX CONCESSIONS OFFERED TO PROMOTE INDUSTRIAL PRODUCTION AND ECONOMIC GROWTH WILL RESULT IN A NET REVENUE LOSS TO THE GOVERNMENT OF RS.99 MILLION (ROUGHLY DOLS11 MILLION) IN A FULL YEAR. GOVERNMENT RECEIPTS FROM ADDITIONAL TAXES IN IFY 1976-77 ARE NOW BUDGETED AT THE SLIGHTLY LOWER FIGURE OF RS.470 MILLION, WHICH WILL INCREASE THE OVERALL NET DEFICIT FROM THE INITIAL BUDGET ESTIMATE OF RS.3.20 BILLION TO RS.3.30 BILLION. AT THE SAME TIME, THE FINANCE MINISTER CLAIMED THAT THE REVISED IFY 1975-76 BUDGET DEFICIT OF RS.4.90 BILLION PRESENTED ON MARCH 15 WAS NOW ESTIMATED AT RS.3.67 BILLION, MAINLY BECAUSE THE GOI HAD NOT BORROWED RS.1.00 BILLION FROM THE RESERVE BANK OF INDIA WHICH IT HAD EARLIER INTENDED TO DO.

6. COPIES OF THE IFY 1976-77 FINANCE ACT WILL BE TRANSMITTED TO WASHINGTON WHEN IT IS FINALLY PASSED BY THE PARLIAMENT.SAXBE

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